

February 14, 2005

Honorable Mayor and Members of
the Hermosa Beach City Council

City Council Meeting of
February 22, 2005

**RESOLUTION OF THE CITY COUNCIL OF THE CITY OF HERMOSA BEACH
AUTHORIZING THE ISSUANCE AND SALE OF A
LIMITED OBLIGATION IMPROVEMENT BOND FOR
ASSESSMENT DISTRICT NO. 2004-2 (BAYVIEW DRIVE)**

RECOMMENDATION

It is recommended that the City Council:

- (1) adopt the attached resolution authorizing issuance of bonds for Bayview Drive Assessment 2004-2
- (2) authorize the City Manager to execute the bond purchase agreement.

BACKGROUND

The City Council has followed all of the prescribed procedures to set up the assessment district, order improvements and provide for assessments, as outlined in the attached resolution.

ANALYSIS

The attached resolution provides for issuance of limited obligation bonds in a principal amount equal to the unpaid assessments. The bonds are secured by a first lien against the real property in the assessment district and will be repaid from assessments levied in the same manner as real property taxes. Neither the credit nor the taxing power of the City is pledged for payment of the bonds or interest. The only obligations of the City are those administrative duties related to the collection and disbursement of assessments.

Since the principal amount of the bonds will be less than \$1 million, sale to a single buyer avoids the additional costs associated with issuance of bonds such as disclosure documents, printing costs and underwriter's discounts.

The resolution provides for sale of a single bond in the amount of \$951,667.47 at an interest rate of 4.25%, which is an excellent interest rate. A letter from Craig Hill of Northcross, Hill & Ach, who serves as our financial advisor, is attached. The letter outlines the current market conditions and verifies that the chosen proposal reflects the lowest cost financing alternative.

A Bond Purchase Agreement, which is the standard document in this type of sale, is also attached and will be signed tomorrow by the City Manager upon your approval tonight of the resolution. Municipal Finance Corporation is the placement agent, with the likely purchaser City National Bank. The scheduled closing date is March 2, 2005.

Respectfully submitted,

Viki Copeland
Finance Director

Stephen R. Burrell
City Manager

RESOLUTION NO. 05-

RESOLUTION OF ISSUANCE OF THE CITY COUNCIL OF THE CITY OF HERMOSA BEACH AUTHORIZING THE ISSUANCE AND SALE OF A LIMITED OBLIGATION IMPROVEMENT BOND FOR ASSESSMENT DISTRICT NO. 2004-2 (BAYVIEW DRIVE)

WHEREAS, on November 23, 2004 this City Council of City of Hermosa Beach (the “City”) adopted Resolution No. 04-6368 (the “Resolution of Intention”) declaring its intention, pursuant to the provisions of Division 12 of the Streets and Highways Code of the State of California, the Municipal Improvement Act of 1913 and Chapter 28, Part 3 of Division 7 of the Streets and Highways Code of the State of California, to order the acquisition and construction of under-grounding existing power and telephone lines, and appurtenances and appurtenant work and incidental costs and expenses in connection therewith and to form Assessment District No. 2004-2 (Bayview Drive); and

WHEREAS, the Resolution of Intention provides for the issuance of bonds in the manner provided by Division 10 of the Streets and Highway Code of the State of California, the Improvement Bond Act of 1915 (the “Act”), to represent and be secured by unpaid assessments; and

WHEREAS, pursuant to Resolution No. 04-6369, adopted by the City Council on November 23, 2004, a hearing was held on January 11, 2005 on the questions of the formation of Assessment District No. 2004-2 (Bayview Drive) (the “Assessment District”) and the issuance of bonds and at said hearing the City Council received a majority vote of the property owners within the Assessment District for the formation of the Assessment District and the issuance of bonds for the unpaid assessments; and

WHEREAS, by its Resolution No. 05-6372, adopted on January 11, 2005, this City Council confirmed the assessment and diagram for Assessment District No. 2004-2 (Bayview Drive); and

WHEREAS, on February 22, 2005, the City Council adopted Resolution No. 05-_____ determining that the unpaid assessments total \$951,667.47; and

WHEREAS, it is necessary and desirable that the City sell bonds to be issued to represent the unpaid assessments; and

WHEREAS, the City shall issue such bonds, in the form of a single installment payment bond, to a financial institution (the “Purchaser”) pursuant to a Bond Purchase Agreement to be entered into by and between the City and the Purchaser;

NOW, THEREFORE, THE CITY COUNCIL OF THE CITY OF HERMOSA BEACH, CALIFORNIA, DOES RESOLVE AS FOLLOWS:

SECTION 1. Definitions. Unless the context otherwise requires, the following terms shall have the following meanings:

“Administrative Expense Requirement” means an amount, not in excess of the aggregate maximum annual assessment for Administrative Expenses permitted to be levied within the Assessment District as set forth in the Engineer’s Report, to be specified each year by the Finance Director to be used for Administrative Expenses.

“Administrative Expenses” means the ordinary and necessary fees and expenses for determination of the Assessment and administering the levy and collection of the Assessment and servicing, pay and prepay the Bond, including any or all of the following: the fees and expenses of the Treasurer, the expenses of the City in carrying out its duties hereunder (including, but not limited to, annual audits and costs incurred in the levying and collection of the Assessment) including the fees and expenses of its counsel and all other costs and expenses of the City incurred in connection with the

discharge of their respective duties hereunder and, in the case of the City, in any way related to the administration of the Assessment District.

“Assessment” or “Assessments” means the special assessments levied in the Assessment District in accordance with the 1913 Act and the Resolution of Intention, together with the net proceeds derived from any foreclosure proceedings and interest and penalties thereon.

“Assessment District” means Assessment District No. 2004-2 (Bayview Drive).

“Assessment Installment” means the annual portion of the Assessment required to amortize the Bond and pay the Administrative Expenses.

“Authorized Investments” means, subject to applicable law, (1) Federal Securities; (2) an Investment Agreement, including GICs, acceptable to, and approved in writing by, the Finance Director; (3) taxable government money market portfolios rated in one of the two highest rating categories by Standard & Poor’s Rating Services restricted to obligations with maturities of one year or less, insured or fully guaranteed as to the principal and interest thereon by the full faith and credit of the United States of America or by repurchase agreements collateralized by such obligations; (4) tax-exempt obligations, including tax exempt money market funds, rated at least “A” or higher by Standard & Poor’s Rating Services and Moody’s Investors Service; (5) commercial paper of “prime” quality of the highest ranking or of the highest letter and numerical rating as provided for by Moody’s Investors Service and Standard & Poor’s Rating Services, limited to issuing corporations that are organized and operating within the United States and having total assets in excess of five hundred million dollars (\$500,000,000) and having an “A” or higher rating for such corporation’s debt, other than commercial paper, as provided for by Moody’s Investors Service and Standard & Poor’s Rating Services and which may not exceed 180 days maturity nor represent more than 10% of the outstanding

paper of an issuing corporation; (6) notes, bonds or other obligations which are at all times secured by a perfected first security interest in securities of the types listed by Section 53651 of the California Government Code as eligible securities for the purpose of securing local agency deposits or which are listed as an Authorized Investment under any of the clauses (1) through (5) of this definition (except those described in this clause (6)) and which have a market value, determined at least weekly, at least equal to 102% of the amount of principal and accrued interest on such obligation, which shall be placed by delivery into the custody of a trust company or the trust department of a bank which is not affiliated with the issuer of the secured obligation and which bank shall be responsible for making any market value determinations, and the security interest shall be perfected in accordance with the requirements of the Uniform Commercial Code or federal regulations applicable to the types of securities in which the security interest is granted; (7) any other investment in which funds of the District may be legally invested pursuant to Government Code Section 53635; (8) repurchase agreements secured by Federal Securities; and (9) time or demand deposits fully insured by the Federal Deposit Insurance Corporation or with institutions rated in one of the two highest rating categories by Moody's Investors Service or Standard & Poor's Rating Services.

“Bond” means the City of Hermosa Beach, Limited Obligation Improvement Bond Assessment District No. 2004-2 (Bayview Drive) issued pursuant to the Resolution.

“Bond Counsel” means an attorney or a firm of attorneys, selected by the City, of nationally recognized standing in matters pertaining to the tax treatment of interest on bonds issued by states and their political subdivisions, duly admitted to the practice of law before the highest court of any state of the United States of America or the District of Columbia.

“Bond Payment Record Book” means the book which the Treasurer shall keep or cause to be kept on which the payments and prepayments of the principal of the Bond shall be kept.

“Bond Register” means the books which the Treasurer shall keep or cause to be kept pursuant to Section 10, on which the registration, transfer and prepayment of a portion of the Bond shall be recorded.

“Bond Year” means the one year period or shorter period ending each year on March 2, or such other date as may be specified by the District in the Tax Certificate.

“Bond Owner” or “Owner” means the person or firm in whose name the Bond is registered as shown on the Bond Register.

“Business Day” means any day of the year in New York, New York or Los Angeles, California other than a Saturday, Sunday, a day on which the New York Stock Exchange is closed or any day on which the Paying Agent is not open for business.

“City” means the City of Hermosa Beach.

“City Clerk” means the City Clerk of the City or his or her designee.

“Closing Date” means the date of delivery of the Bond by the City and payment therefor by the original purchaser thereof.

“Code” means the Internal Revenue Code of 1986, as amended.

“County” means the County of Los Angeles.

“Engineer’s Report” means the report concerning the Assessment District prepared by David Taussig & Associates, Inc., as approved by the City Council on January 11, 2005 and on file with the City Clerk.

“Federal Securities” means, subject to applicable law, United States Treasury notes, bonds, bills or certificates of indebtedness, including United States Treasury Obligations, State and Local Government Series (“SLGS”) or other direct obligations

issued by the United States Treasury for which the full faith and credit of the United States are pledged for the payment of principal and interest; and obligations issued by banks for cooperatives, federal land banks, federal intermediate credit banks, federal home loan banks, the Federal Home Loan Bank Board, the Tennessee Valley Authority, or other federal agencies or United States Government-sponsored enterprises.

“Finance Director” means the Finance Director of the City or his or her designee.

“Fiscal Year” means the twelve-month period terminating on June 30 of each year, or any other annual accounting period hereafter selected and designated by the City as its Fiscal Year in accordance with applicable law.

“Improvements” means the acquisition and construction of the Improvements set forth in the Engineer’s Report.

“Interest Payment Date” means each March 2 and September 2, commencing September 2, 2005.

“Investment Agreement” means one or more agreements entered into between the City and an entity or entities whose long term uninsured, unsecured and unguaranteed debt or claims-paying ability is rated as of the date of the Investment Agreement in either of the two highest categories (without regard to gradations of plus and minus within such categories) by Standard & Poor’s Rating Services or Moody’s Investors Service, or an Investment Agreement between the District, and an entity which is rated as of the date of the Investment Agreement in either of the two highest categories (without regard to gradations of plus and minus within such categories) by Standard & Poor’s Rating Services or Moody’s Investors Service.

“1913 Act” means the Municipal Improvement Act of 1913, being Division 12 (commencing with Section 10000) of the California Streets and Highways Code.

“1915 Act” means the Improvement Bond Act of 1915, being Division 10 (commencing with Section 8500) of the California Streets and Highways Code.

“Owner” means, with respect to the Bond, the person shown as the owner thereof in the Bond Register.

“Purchaser” means the initial purchaser of the Bond.

“Purchase Agreement” means the bond purchase agreement authorized and executed by the City Manager and the Purchaser.

“Record Date” means the fifteenth day of the month preceding an Interest Payment Date, whether or not such day is a Business Day.

“Resolution” means this Resolution of Issuance.

“Reserve Requirement” means an amount equal to \$10,000, plus interest earned thereon, which requirement shall be in cash or Authorized Investments as provided in this Resolution.

“Resolution of Intention” means Resolution No. 04-6368, adopted by the City Council of the City on November 23, 2004, stating the City’s intention, among other things, to issue the Bond.

“Resolution of Issuance” means Resolution No. 05-____ adopted by the City Council of the City on February 22, 2005, authorizing the issuance of the Bond.

“Superintendent of Streets” means the Director of Public Works or his or her designee.

“Tax Certificate” means the Tax Certificate delivered upon the issuance of the Bond.

“Tax-Exempt” means, with reference to an Authorized Investment, as Authorized Investment described as a tax-exempt obligation in the Tax Certificate.

“Treasurer” means the Treasurer of the City or his or her designee.

SECTION 2. Interpretation.

(a) Unless the context otherwise indicates, words expressed in the singular shall include the plural, and vice versa and the use of the neuter, masculine, or feminine gender is for convenience only and shall be deemed to mean and include the neuter, masculine or feminine gender, as appropriate.

(b) Headings of articles and sections herein and the table of contents hereof are solely for convenience of reference, do not constitute a part hereof and shall not affect the meaning, construction or effect hereof.

SECTION 3. Pledge of Assessments; No Obligation to Cure Deficiency.

Pursuant to the 1913 Act, the 1915 Act and this Resolution, the payment of the interest on and principal of the Bond and any premiums upon the prepayment thereof shall be exclusively paid from the Assessments and moneys on deposit in the Redemption Fund and the Reserve Fund which are hereby irrevocably pledged for the payment of the Bond. The Assessments and any interest earned on the funds established herein shall constitute a trust fund held for the benefit of the Owner of the Bond to be applied to the payment of the interest on, premium, if any, and principal of the Bond and so long as principal and interest on any of the Bond remains unpaid shall not be used for any other purpose, except as permitted by the 1913 Act, the 1915 Act or this Resolution.

Pursuant to Streets and Highways Code Section 8769, this City Council provided in the Resolution of Intention that the City will not obligate itself to advance available funds from the City treasury to cure any deficiency which may occur in the Redemption Fund to be established for the payment of the Bond.

SECTION 4. Unpaid Assessments. The assessments now remaining unpaid, and the aggregate thereof, are as shown on the list of unpaid assessments on file in the office of the Treasurer of the City, in the aggregate amount of \$951,667.47. For a

particular description of the lots or parcels of land bearing the respective assessment numbers upon which assessments remain unpaid, severally and respectively, reference is hereby made to the assessment and to the diagram recorded in the office of the Superintendent of Streets.

SECTION 5. Issuance of the Bond. The Bond shall be issued upon the security of said unpaid assessments in the aforesaid amount, in accordance with the provision of Division 10 of the Streets and Highways Code of the State of California and the proceedings thereunder duly had and taken, for the purpose of issuing the Bond.

Said Bond shall be designated “United States of America, State of California, County of Los Angeles, City of Hermosa Beach, Limited Obligation Improvement Bond, Assessment District No. 2004-2 (Bayview Drive)”, and shall be in the denomination of \$951,667.47 with principal amounts maturing on September 2 of each year as hereinafter set forth:

<i>BOND MATURING</i>	<i>AMOUNT</i>	<i>BOND MATURING</i>	<i>AMOUNT</i>
2006	31,138.40	2019	53,491.55
2007	32,461.77	2020	55,764.94
2008	33,841.41	2021	58,134.95
2009	35,279.67	2022	60,605.68
2010	36,779.06	2023	63,181.42
2011	38,342.17	2024	65,866.63
2012	39,971.71	2025	68,665.96
2013	41,670.51		
2014	43,441.50		
2015	45,287.77		
2016	47,212.50		
2017	49,219.03		
2018	51,310.84		

The Bond shall be in the form of a fully registered Bond without coupons and shall be initially dated the delivery date. The Bond shall be substantially in the form set forth in Exhibit "A" hereto attached and by reference made a part hereof.

SECTION 6. Interest. The Bond shall bear interest on the unpaid principal amount thereof at the rate of 4.25% per annum, payable on September 2, 2005 and semiannually thereafter on March 2 and September 2 of each year. Interest on the Bond shall be calculated on the basis of 360-day year consisting of twelve 30-day months.

The Bond shall bear interest from the interest payment date next preceding the date of registration thereof unless: (i) it is registered as of an interest payment date, in which event it shall bear interest from such interest payment date, or (ii) it is registered on or prior to August 15, 2005, in which event it shall bear interest from the date thereof. Registration of the Bond issued upon exchanges and transfers the Bond shall be dated so that no gain or loss of interest shall result from the exchange or transfer. Interest and principal on the Bond shall be paid by the Treasurer by check mailed on the interest payment date to the registered owner of the Bond as the name and address appear on the register kept by the Treasurer at the close of business on the fifteenth (15th) day of the month preceding the interest payment date.

The Bond shall continue to bear interest after maturity at the rate stated therein, provided that payment thereof is refused on the sole ground that there is not sufficient money in the Redemption Fund hereinafter referred to with which to pay same.

SECTION 7. Execution and Authentication. The Bond shall be signed on behalf of the City by the Treasurer and the City Clerk and the corporate seal of the City shall be affixed to the Bond. Such signatures and the City seal may be reproduced on the Bond by engraved, printed, typed or lithographed facsimile thereof, and such signing and sealing shall constitute and be a sufficient and binding execution of the Bond. If any

officer whose signature appears on the Bond ceases to be such officer before the delivery of the Bond to the purchaser, such signature shall be as valid as if such officer remained in office until the delivery of the Bond.

The Bond shall have typed, printed or engraved thereon a certificate of authentication and registration, substantially in the form set forth in Exhibit "A," hereto attached and by reference made a part hereof, duly executed by manual signature of the Treasurer. The Bond shall not be valid or obligatory for any purpose under this Resolution unless and until such certificate of authentication and registration shall have been duly executed by the Treasurer, and such certificate of the Treasurer upon any the Bond shall be conclusive and the only evidence that the Bond has been duly authenticated and delivered under this Resolution.

SECTION 8. Manner and Place of Payment. The principal on the Bond shall be payable in lawful money of the United States of America. Interest and principal on the Bond shall be paid by the Treasurer by check as provided in Section 6 of this Resolution.

SECTION 9. Provisions for the Prepayment of All or a Portion of the Principal of the Bond.

(a) *Prepayment from Assessment Prepayments.* On an Interest Payment Date, money in the Prepayment Account of the Redemption Fund from the proceeds of prepayments of Assessments, a portion of the principal amount of the Bond shall be called for prepayment as provided in Part 11.1 of the 1915 Act and this Resolution. The Bond, or any portion of the principal, may be prepaid in advance of maturity on any Interest Payment Date in any year by giving notice to the Owner thereof as provided in this Resolution and by paying the principal amount thereof, plus interest to the date of prepayment, together with a prepayment premium equal to three percent (3.00%) of the

principal of the Bond to be prepaid. In determining the portion of the Bond to be prepaid, the Treasurer may reduce the principal amount of any one or more of the maturities so that there is maintained as nearly as possible a level debt service.

Nothing in this Resolution shall preclude the prepayment prior to maturity of the Bond from proceeds of a refunding bond or bonds issued under the Refunding Act of 1984 for 1915 Improvement Act Bonds or under any other law of the State of California.

(b) ***Selection of the Maturity Bonds for Prepayment.*** If less than all of the Bond is to be prepaid, the Treasurer shall designate the principal amount of a maturity to be prepaid. The Treasurer shall record in the Bond Payment Record Book all payments and prepayments of principal of the Bonds which record shall be conclusive evidence of such payments.

(c) ***Notice of Prepayment.*** When any principal amount of the Bond is to be called for prepayment under this Section, the Treasurer shall give notice, in the name of the City, of the prepayment of such principal amount of the Bond. Such notice of prepayment shall (A) specify the portion of a maturity and the maturity date or dates of the Bond selected for prepayment, except that where the Bond in its entirety is subject to prepayment, the maturity dates need not be given; (B) state the date fixed for prepayment; and (C) state the prepayment price. Such notice shall further state that on the date fixed for prepayment, there shall become due and payable on the Bond or portion thereof called for prepayment, the principal thereof, together with any premium, and interest accrued to the prepayment date, and that from and after such date, interest thereon shall cease to accrue and be payable. At least thirty (30) days but no more than sixty (60) days prior to the prepayment date, the Treasurer shall mail a copy of such notice, by registered or certified mail, postage prepaid, to the Owner of the Bond a portion of which is to be prepaid at their addresses appearing on the Bond Register. The

actual receipt by the Owner of the Bond of notice of such prepayment shall not be a condition precedent thereto, and failure to receive such notice shall not affect the validity of the proceedings for the prepayment of the Bond or any principal amount thereof, or the cessation of interest on the prepayment date. A certificate by the Treasurer that notice of such prepayment has been given as herein provided shall be conclusive as against all parties.

(d) *Effect of Notice and Availability of Prepayment Money.* Notice of prepayment having been duly given, as provided in this Section, and the amount necessary for the prepayment having been made available for that purpose and being available therefor on the date fixed for such prepayment:

(i) the Bond, or portions thereof, designated for prepayment shall, on the date fixed for prepayment, become due and payable at the prepayment price thereof as provided in this Resolution, anything in this Resolution or in the Bond to the contrary notwithstanding;

(ii) the Treasurer shall pay to the Owner of the Bond the prepayment price and shall keep a record of the prepayment in the Bond Payment Record Book, which record shall be conclusive evidence of such prepayment;

(iii) after the prepayment date the Bond or portions thereof so designated for prepayment shall be deemed to be no longer outstanding and the Bond or said portions thereof shall cease to bear further interest; and

(iv) after the date fixed for prepayment the Owner of the Bond as to the principal amount thereof so designated for prepayment shall not be entitled to any of the benefits of this Resolution, or to any other rights, except with respect to payment of the prepayment price and interest accrued to the prepayment date from the amounts so made available.

SECTION 10. Bond Register, Transfer and Registration. The Bond issued under this Resolution shall be subject to the provisions for registration and transfer contained in this Resolution and in the Bond. So long as any of the Bond shall remain outstanding, the Treasurer shall maintain and keep, at its office in Hermosa Beach, California, a Bond Register, being sufficient books for the registration or transfer of the Bond, and, upon presentation of the Bond for registration or transfer at said office, the Treasurer shall register or cause to be registered therein, and permit to be transferred thereon, under such reasonable regulations as the City or the Treasurer may prescribe, the Bond entitled to registration or transfer. So long as any of the Bond remains outstanding, the City shall make all necessary provisions to permit the exchange of the Bond at said office of the Treasurer.

SECTION 11. Transfer of Bond.

(a) The Bond shall be transferable only upon the Bond Register of the Treasurer referred to in Section 10 of this Resolution by the registered owner thereof in person or by his attorney duly authorized in writing, upon surrender thereof, together with a written instrument of transfer satisfactory to the Treasurer duly executed by the registered owner or his duly authorized attorney. Upon the transfer of any the Bond, the Treasurer shall issue in the name of the transferee a new Bond of the same aggregate principal amount and maturity, except for any maturity or portion thereof prepaid, as the surrendered Bond.

(b) The Treasurer may deem and treat the person in whose name the outstanding Bond shall be registered upon said Bond Register of the Treasurer as the absolute owner of such Bond, whether such Bond shall be overdue or not, for the purpose of receiving payment of, or on account of, the principal, or prepayment price, if any, of and interest on such Bond and for all other purposes. All such payments so made to any

such registered owner or upon his order shall be valid and effectual to satisfy and discharge the liability upon such Bond to the extent of the sum or sums so paid, and neither the City nor the Treasurer shall be affected by any notice to the contrary.

SECTION 12. Regulations with Respect to Exchanges and Transfers. In all cases in which the privilege of exchanging or transferring the Bond is exercised, the City shall execute and the Treasurer shall authenticate and deliver the new bond in accordance with the provisions of this Resolution. The Bond surrendered in any such exchanges or transfers shall be canceled and retired by the Treasurer or destroyed as permitted by law. For every such exchange or transfer of the Bond, whether temporary or definitive, the Treasurer may impose a charge sufficient to reimburse them for any tax, fee or other governmental charge required to be paid with respect to such exchange or transfer (other than such as may have been imposed by the City), which sum or sums shall be paid by the person requesting such exchange or transfer as a condition precedent to the exercise of the privilege of making such exchange or transfer. The Treasurer shall not be required to make any such exchange or registration of transfer during the fifteen days immediately preceding any March 2 or September 2.

SECTION 13. Mutilated, Destroyed, Stolen or Lost Bond. In case the Bond shall become mutilated or be destroyed, stolen or lost, the City shall execute and the Treasurer shall authenticate and deliver a new Bond of like maturity and principal amount, except for any maturity or portion thereof prepaid, as the Bond so mutilated, destroyed, stolen or lost, in exchange and substitution for such a mutilated Bond, upon surrender and cancellation of the mutilated Bond or in lieu of and in substitution for a destroyed, stolen or lost Bond, upon filing with the Treasurer evidence satisfactory to the Treasurer that the Bond has been destroyed, stolen or lost and proof of ownership thereof, and upon furnishing the Treasurer with indemnity satisfactory to each, complying with

such other reasonable regulations as the Treasurer may incur. The Bond so surrendered to the Treasurer shall be canceled and retired by the Treasurer or destroyed as permitted by law.

SECTION 14. Preparation of the Definitive Bond; Temporary Bond. The definitive Bond shall be typed on security paper, lithographed or printed on steel engraved borders at the option of the City. Until the definitive Bond is prepared, the City may execute, in the same manner as is provided in Section 7, and the Treasurer may authenticate and deliver, in lieu of the definitive Bond, but subject to the same provisions, limitations and conditions as the definitive Bond.

The temporary Bond (which shall be registered as to principal and interest), substantially of the tenor of the definitive Bond in lieu of which such temporary Bond is issued and with such omissions or insertions of and variations from the terms and conditions thereof as may be appropriate to temporary Bond. The City at its expense shall prepare and execute, and the Treasurer upon the surrender of such temporary Bond for exchange and the cancellation of such surrendered temporary Bond, without charge to the holder thereof, shall authenticate and deliver in exchange therefor, at the office of the Treasurer in Hermosa Beach, California, the definitive Bond of the same aggregate principal amount and maturity as the temporary Bond which shall in all respects be entitled to the same benefits and security as definitive Bond issued pursuant to this resolution. The temporary Bond surrendered in exchange for the definitive Bond shall be canceled and retired by The Treasurer or destroyed as permitted by law.

SECTION 15. Redemption Fund. The City shall keep a Redemption Fund designated Assessment District No. 2004-2 (Bayview Drive) Redemption Fund (the "Redemption Fund"). All sums received by the Treasurer from the collection of the Assessments and of the interest and penalties thereon shall be deposited in the

Redemption Fund, except the amount of delinquent Assessments that are deposited in the Reserve Fund to replace amounts withdrawn from the Reserve Fund to pay debt service because of delinquencies and the money deposited in the Administrative Expense Fund. The City shall disburse moneys from the Redemption Fund to pay the principal and interest on the Bond when due thereon.

SECTION 16. Prepayment Account. Moneys set aside in the Prepayment Account, which the City shall establish in the Redemption Fund, shall be used solely for the purpose of prepaying all or a portion of the principal amount of the Bond and shall be applied on or after the prepayment date to the payment of principal of and premium, if any, on the principal Bond to be repaid.

Upon receiving any prepayment of an Assessment, the Treasurer shall deposit such prepayment in the Prepayment Account, which when coupled with the moneys transferred from the Reserve Fund pursuant to Section 19 to the Prepayment Account, shall be used, to redeem Bonds on the next Interest Payment Date for which proper notice pursuant to Section 9 can be given by the Treasurer. If less than all of the prepayment of an Assessment, together with the money transferred from the Reserve Fund, can be used to redeem Bonds in increments of \$5,000, the remaining portion of the prepayment is to be retained in the Prepayment Account and, when at the determination of the District there is sufficient money to redeem Bonds shall be used to redeem Bonds as herein provided.

SECTION 17. Bond Proceeds. From the proceeds from the sale of the Bond, the Treasurer shall place the accrued interest, if any, in the Redemption Fund, \$10,000 in the Reserve Fund and the balance shall be placed in the Improvement Fund to pay for the Improvements and Incidental Expenses, as set forth in the Engineer's Report For Assessment District No. 2004-2 (Bayview Drive) approved by the City Council on

January 11, 2005 and the amount to reimburse the City for the moneys advanced by the City for the acquisition and construction of the Improvements, and the moneys in said funds shall be used only for the purposes set forth herein and as permitted by the Act.

SECTION 18. Improvement Fund. The Treasurer shall deposit in a special fund hereby created and designated the “Assessment District No. 2004-2 (Bayview Drive) Improvement Fund” (the “Improvement Fund”) the amount set forth in Section 17 hereof. All moneys in the Improvement Fund shall be applied exclusively to acquire and construct the Improvements and to reimburse the District for amounts paid by the City for the costs of the Improvements and acquisitions described in the Resolution of Intention, as now or hereafter amended or changed by appropriate change and modification proceedings, and all Incidental Expenses. Any surplus remaining in the Improvement Fund after the payment for the Improvement and all Incidental Expenses shall be transferred to the Redemption Fund and used as provided in Section 10427 of the Streets and Highways Code of the State of California.

SECTION 19. Reserve Fund. The Treasurer shall establish a fund designated the Assessment District No. 2004-2 (Bayview Drive) Reserve Fund (the “Reserve Fund”). The City agrees to deposit in the Reserve Fund from Bond proceeds \$10,000. Interest earned on money in the Reserve Fund, shall be retained in the Reserve Fund for the purpose hereinafter set forth. Money in the Reserve Fund shall be used solely for the purpose of paying the principal of and interest on the Bond when due in the event that the moneys in the Redemption Fund are insufficient therefor. The Treasurer shall withdraw moneys as necessary from the Reserve Fund for deposit in the Redemption Fund on or before the first day of March and September of each year.

In the event an Assessment is prepaid in whole or in part, the Assessment thus prepaid shall be reduced by an amount equal to that proportionate of the amount in the Reserve

Fund at the time of said prepayment attributable to the amount of the Assessment prepaid, and the amount thus determined shall be transferred from the Reserve Fund to the Prepayment Account of the Redemption Fund.

In the event that moneys comprising (i) the Reserve Fund and (ii) the Redemption Fund are sufficient to retire the outstanding Bond plus accrued interest thereon, such moneys in the Reserve Fund shall be transferred to the Redemption Fund for the payment of the Bond.

All amounts remaining in the Reserve Fund in the year in which the last Assessment Installments become due and payable shall be credited toward said Assessments as provided above.

In the event money is withdrawn from the Reserve Fund and transferred to the Redemption Fund to pay debt service on the Bond, the City shall deposit in the Reserve Fund any money received from the payment of delinquent Assessments made by the owner of delinquent property or as a result of any foreclosure action to replace the amount withdrawn from the Reserve Fund.

SECTION 20. Administrative Expense Fund. Upon receipt of the Assessment Installments, the Treasurer shall deposit the amounts designated as the Administrative Expense Requirement to the Administrative Expense Fund. The Treasurer shall apply the moneys on deposit in the Administrative Expense Fund for payment of Administrative Expenses.

Fees or charges incurred by the City in performance of their respective obligations hereunder shall be paid from the Administrative Expense Fund, except that the fees or charges payable to the County for enrolling the levy shall be retained by the County prior to making an apportionment pursuant to the provisions of Section 8682 of the 1915 Act and shall not be transferred to the Treasurer or considered part of the apportionment. All

fees or charges of the City shall be reimbursed or satisfied by the collection of such fees or charges or estimates thereof with the principal of and interest on the Assessment Installments due at the time of such collection. The amount of any such fees, charges or estimates thereof shall be apportioned pro rata and shall be collected with the same collection and enforcement procedures and with the same priority and effect as with respect to the collection of the principal of and interest on the Assessments.

SECTION 21. Treasurer. This City Council hereby appoints the Treasurer to act as paying agent, transfer agent and registrar for the Bond.

SECTION 22. Cumulative Remedy. This City Council covenants that, pursuant to Part 14 (commencing with Section 8830) of Division 10 of the Streets and Highways Code of the State of California, when the delinquency reported by the Auditor of the County of Los Angeles of any property owner is equal to \$900, it will order and cause to be commenced and thereafter diligently prosecute an action in the Superior Court of California in and for the County of Los Angeles to foreclose the lien of any and all such delinquent assessments or of any interest thereon.

SECTION 23. Unpaid Assessments as Trust Fund. The unpaid Assessments shown on the assessment roll on file in the office of the Superintendent of Streets are determined by this City Council to be correct, and said unpaid Assessments, together with the interest thereon, shall remain and constitute a trust fund for the prepayment and payment of the Bonds and of the interest which may be due thereon.

SECTION 24. Federal Tax Covenants. Notwithstanding any other provision of this Resolution, absent an opinion of Bond Counsel that the exclusion from gross income of interest on the Bond will not be adversely affected for federal income tax purposes, the City covenants to comply with all applicable requirements of the Code necessary to

preserve such exclusion from gross income and specifically covenants, without limiting the generality of the foregoing, as follows:

(a) ***Private Activity.*** The City will not take or omit to take any action or make any use of the proceeds of the Bond or of any other monies or property which would cause the Bond to be a “private activity bond” within the meaning of Section 141 of the Code;

(b) ***Arbitrage.*** The City will make no use of the proceeds of the Bond or of any other amounts or property, regardless of the source, or take or omit to take any action which will cause the Bond to be an “arbitrage bond” within the meaning of Section 148 of the Code;

(c) ***Federal Guarantee.*** The City will make no use of the proceeds of the Bond or take or omit to take any action that would cause the Bond to be “federally guaranteed” within the meaning of Section 149(b) of the Code;

(d) ***Information Reporting.*** The City will take or cause to be taken all necessary action to comply with the informational reporting requirement of Section 149(e) of the Code;

(e) ***Hedge Bond.*** The City will make no use of the proceeds of the Bond or any other amounts or property, regardless of the source, or take or omit to take any action that would cause the Bond to be considered “hedge bonds” within the meaning of Section 149(g) of the Code, unless the City takes all necessary action to assure compliance with the requirements of Section 149(g) of the Code to maintain the exclusion from gross income of interest on the Bond for federal income tax purposes; and

(f) ***Miscellaneous.*** The City will take no action inconsistent with its expectations stated in the Tax Certificate and will comply with the covenants and requirements stated therein and incorporated by reference herein.

SECTION 25. Rebate Fund. The City does not intend to issue tax exempt securities in 2005 in excess of \$5,000,000 and therefore, the arbitrage provisions relating to the Bond do not apply. In the event the City issues tax exempt securities in 2005 in excess of \$5,000,000, the following procedure shall apply.

(a) ***Establishment of Rebate Fund.*** The Treasurer shall establish a special fund with respect to the Bond and the City and the Treasurer shall comply with the requirements below. All money at any time deposited in the Rebate Fund shall be held by the Treasurer in trust, for payment to the United States Treasury. All amounts on deposit in the Rebate Fund shall be governed by this Section 25 and the applicable Tax Certificate, unless the City obtains an opinion of Bond Counsel that the exclusion from gross income of interest on the Bond will not be adversely affected for federal income tax purposes if such requirements are not satisfied.

(i) ***Computation.*** Within 55 days after the end of the fifth Bond Year and each fifth Bond Year thereafter (and the last Bond Year), the City shall calculate or cause to be calculated the amount of rebatable arbitrage, in accordance with Section 148(f)(2) of the Code and Section 1.148-3 of the Rebate Regulations (taking into account any applicable exceptions with respect to the computation of the rebatable arbitrage, described, if applicable, in the Tax Certificate (the “Rebatable Arbitrage”).

(ii) ***Transfer.*** Within 55 days after the end of each fifth Bond Year, an amount shall be deposited to the Rebate Fund by the Treasurer from any legally available funds of the City, if and to the extent required, so that the balance in the Rebate Fund shall equal the amount of Rebatable Arbitrage so calculated in accordance with (i) above. In addition, within 55 days after the payment of the Bond an amount shall be deposited to the Rebate Fund by the Treasurer from any legally available funds of the City, if and to

the extent required, so that the balance in the Rebate Fund shall equal the amount of Rebatable Arbitrage so calculated in accordance with (i) above.

(iii) *Payment to the Treasury.* The Treasurer shall pay to the United States Treasury, out of amounts from the Rebate Fund,

(A) Not later than 60 days after the end of (a) the fifth Bond Year, and (b) each fifth Bond Year thereafter, an amount equal to at least 90% of the Rebatable Arbitrage calculated as of the end of such Bond Year; and

(B) Not later than 60 days after the payment of the Bond, an amount equal to 100% of the Rebatable Arbitrage calculated as of the end of such Bond Year, and any income attributable to the Rebatable Arbitrage, computed in accordance with Section 148(f) of the Code.

In the event that, prior to the time of any payment required to be made from the Rebate Fund, the amount in the Rebate Fund is not sufficient to make such payment when such payment is due, the City shall calculate or cause to be calculated the amount of such deficiency and transfer to the Rebate Fund an amount received from any legally available source of the City, equal to such deficiency in the Rebate Fund prior to the time such payment is due. Each payment required to be made pursuant to this Section shall be made to the Internal Revenue Service Center, Philadelphia, Pennsylvania 19255 on or before the date on which such payment is due, and shall be accompanied by Internal Revenue Service Form 8038-T provided to the Treasurer in a completed form by the City, or shall be made in such other manner as provided under the Code as directed in writing by the City.

(b) *Disposition of Unexpended Funds.* Any funds remaining in the Rebate Fund after prepayment and payment of the Bond and the payments described in (iii) above, shall be transferred to the City's general fund.

(c) *Survival of Defeasance.* Notwithstanding anything in this Section or the Resolution to the contrary, the obligation to comply with the requirements of this Section shall survive the defeasance of the Bond.

SECTION 26. Incontestability. After the sale and delivery of the Bond by the City, the Bond shall be incontestable by the City.

SECTION 27. Contract with the Bond Owner. The provisions of this Resolution and of any other resolution supplementing or amending this Resolution shall constitute a contract between the City and the Owner of the Bond, and such provisions shall be enforceable by the Bond Owner by mandamus, accounting, mandatory injunction or any other suit, action or proceeding at law or in equity that is now or may hereafter be authorized under the laws of the State of California in any court of competent jurisdiction. Said contract is made under and is to be construed in accordance with the laws of the State of California.

No remedy conferred hereby upon the Bond Owner is intended to be exclusive of any other remedy, but each such remedy is cumulative and in addition to every other remedy and may be exercised without exhausting and without regard to any other remedy conferred by law.

No waiver of any default or breach of duty or contract by the Bond Owner shall affect any subsequent default or breach of duty or contract or shall impair any right or remedies on said subsequent default or breach. No delay or omission of the Bond Owners to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed as a waiver of any default or acquiescence therein. Every substantive right and every remedy conferred upon the Bond Owners may be enforced and exercised as often as may be deemed expedient. In case any suit, action or proceeding to enforce any right or exercise any remedy shall be brought or taken and

should said suit, action or proceeding be abandoned, or be determined adversely to the Bond Owner, then, the City and the Bond Owners shall be restored to their former positions, rights and remedies as if such suit, action or proceeding had not been brought or taken.

SECTION 28. Cessation of Agreements. When the Bond and all interest to accrue thereon have been fully paid and discharged, the agreements in this Resolution contained shall cease and terminate, and the City shall be under no further obligation to do or perform any of the covenants, conditions or agreements in this Resolution contained.

SECTION 29. Partial Invalidity. If any section, subsection, sentence, clause or phrase of this Resolution shall be for any reason held by a court of competent jurisdiction to be unconstitutional, invalid or unenforceable, such holding shall not affect the validity of the remaining portions hereof. This City Council hereby declares that it would have passed this Resolution and each section, subsection, sentence, clause or phrase hereof irrespective of the fact that any one or more sections, subsections, sentences, clauses or phrases be declared to be unconstitutional, invalid or unenforceable, and such holding shall not affect the validity of the remaining portions hereof. This City Council hereby declares that it would have passed this Resolution and each section, subsection, sentence, clause or phrase hereof irrespective of the fact that any one or more sections, subsections, sentences, clauses or phrases be declared to be unconstitutional, invalid or unenforceable.

SECTION 30. Liberal Construction. This Resolution shall be liberally construed to the end that its purpose may be effected. No error, irregularity or informality and no neglect or omission herein or in any proceeding had pursuant hereto which does not directly affect the jurisdiction of this City Council shall void or invalidate

this resolution or such proceeding or any part thereof, or any act or determination made pursuant thereto.

SECTION 31. Bank Qualified. The District hereby determines that the Bonds are qualified tax-exempt obligations pursuant to Section 265(b) of the Code and finds that the reasonably anticipated amount of qualified tax-exempt obligations which will be issued by the District and all of its subordinate entities during the 2005 calendar year will not exceed \$10,000,000.

SECTION 32. Approval of the Sale and Delivery of the Bond. The City Manager is authorized to execute with the Purchaser a purchase agreement to sell the Bond to the Purchaser in the principal amount of \$951,667.47 at an interest rate of 4.25%. The Treasurer is hereby authorized and directed to authenticate the Bond and to deliver it to the Purchaser upon payment of the purchase price thereof.

SECTION 33. Authorization of Officers. The officers of the City are hereby authorized and directed, jointly and severally, to do any and all things and to execute and deliver any and all documents which they may deem necessary or advisable in order to consummate the issuance, sale and delivery of the Bond, and otherwise to effectuate the purposes of this Resolution, and such actions previously taken by such officers are hereby ratified and confirmed.

SECTION 34. Effective Date. This Resolution shall become effective upon adoption.

PASSED, APPROVED and ADOPTED this 22nd day of February 2005.

PRESIDENT of the City Council and **MAYOR** of the City of Hermosa Beach,
California

ATTEST:

APPROVED AS TO FORM:

City Clerk

City Attorney

EXHIBIT A

[FACE OF BOND]

UNITED STATES OF AMERICA
STATE OF CALIFORNIA
COUNTY OF LOS ANGELES

CITY OF HERMOSA BEACH
LIMITED OBLIGATION IMPROVEMENT BOND
ASSESSMENT DISTRICT NO. 2004-2
(BAYVIEW DRIVE)

No. 1 \$951,667.47

Pursuant to the Municipal Improvement Act of 1913, Division 12 of the Streets and Highways Code and under and by virtue of the Improvement Bond Act of 1915, Division 10 of the Streets and Highways Code (the "Act"), City of Hermosa Beach, County of Los Angeles, State of California (the "City"), will, out of the Redemption Fund for the payment of the bond issued upon the unpaid portion of assessments made for the work and improvements on certain streets and rights of way in Assessment District No. 2004-2 (Bayview Drive) more fully described in the resolution of intention, Resolution No. 04-6368 adopted by the City Council of the City on November 23, 2004 (the "Resolution of Intention"), pay to _____, or registered assigns the principal sum of Nine Hundred Fifty-One Thousand Six Hundred Sixty-Seven Dollars and Forty-Seven Cents s (\$951,667.47), in lawful money of the United States of America on September 2 in each of the years and installments of principal as follows:

<i>MATURITY DATES</i>	<i>MATURITY AMOUNT</i>	<i>MATURITY DATES</i>	<i>MATURITY AMOUNT</i>
2006	31,138.40	2019	53,491.55
2007	32,461.77	2020	55,764.94
2008	33,841.41	2021	58,134.95
2009	35,279.67	2022	60,605.68
2010	36,779.06	2023	63,181.42
2011	38,342.17	2024	65,866.63
2012	39,971.71	2025	68,665.96
2013	41,670.51		
2014	43,441.50		
2015	45,287.77		
2016	47,212.50		
2017	49,219.03		
2018	51,310.84		

and in like manner will pay interest from the interest payment date next preceding the date on which this bond is authenticated, unless this bond is authenticated and registered as of an interest payment date, in which event it shall bear interest from such interest payment date, or unless this bond is authenticated and registered on or prior to February 15, 2006, in which event it shall bear interest from its date, until payment of such principal sum shall have been discharged, at the rate of 4.25% per annum, payable

semiannually on March 2 and September 2 in each year commencing on September 2, 2005. The principal installments hereof and the interest hereon are payable by check mailed to the owner hereof at the owner's address as it appears on the records of the Treasurer of the City, acting as transfer agent, registrar and paying agent (the "Treasurer"), or at such address as may have been filed with the Treasurer for that purpose, as of the fifteenth day of the month immediately preceding each interest payment date.

Each installment of principal will continue to bear interest after maturity at the rate above stated; provided, at maturity and payment thereof is refused upon the sole ground that there are not sufficient moneys in said Redemption Fund with which to pay same.

This Bond shall not be entitled to any benefit under the Act or the Resolution of Issuance of the Limited Obligation Improvement Bond for Assessment District No. 2004-2 (Bayview Drive), Resolution No. _____ (the "Resolution of Issuance"), or become valid or obligatory for any purpose, until the certificate of authentication and registration hereon endorsed shall have been dated and signed by the manual signature of the Treasurer.

This Bond is issued by the City under the Act and the Resolution of Issuance, for the purpose of providing means for paying for the work and improvements described in the Resolution of Intention, and is secured by the moneys in the Redemption Fund established by the Resolution of Issuance and by the unpaid portion of assessments made for the purpose of said work, and, including principal and interest, is payable exclusively out of said fund.

This Bond is transferable by the registered owner hereof, in person or by the owner's attorney duly authorized in writing, at the office of the Treasurer in Hermosa Beach, California, subject to the terms and conditions provided in the Resolution of Issuance, including the payment of certain charges, if any, upon surrender and cancellation of this Bond. Upon such transfer, a new registered bond of the same maturities, for the same aggregate principal amount, except the new bond shall reflect a maturity or portion thereof prepaid, will be issued to the transferee in exchange therefor.

The City shall not be required to make such exchange or registration of transfer of bonds during the 15 days immediately preceding any interest payment date.

The Treasurer may treat the owner hereof as the absolute owner for all purposes, and the Treasurer shall not be affected by any notice to the contrary.

This Bond or any portion of it may be prepaid and paid in advance of maturity as provided in the Resolution of Issuance upon the 2nd day of March or September in any year by giving at least 30 days' notice by registered mail to the registered owner hereof at the owner's address as it appears on the registration books of the Treasurer by paying the principal amount to be prepaid and interest on said amount to the date of prepayment, with a premium of 3% of the principal amount prepaid.

ALL OR A PORTION OF AN INSTALLMENT OF PRINCIPAL MAY HAVE BEEN PREPAID FROM THE PREPAYMENT OF ASSESSMENTS. THE RECORD OF THE PAYMENT OR THE PREPAYMENT OF AN INSTALLMENT OF PRINCIPAL IS ON FILE IN THE OFFICE OF THE TREASURER IN THE BOND PAYMENT RECORD BOOK.

IN WITNESS WHEREOF, said City has caused this Bond to be signed by the Treasurer of said City and its City Clerk by their manual signatures, and sealed with the corporate seal of the City hereon all as of the _____ day of _____, 2005.

City Clerk of the City of Hermosa Beach
Beach

Treasurer of the City of Hermosa

[SEAL]

ASSIGNMENT

FOR VALUE RECEIVED the undersigned hereby sell(s), assign(s) and transfer(s) unto

[PLEASE INSERT SOCIAL SECURITY OR
OTHER IDENTIFYING NUMBER OF ASSIGNEE] _____

[Please print or typewrite name and address including postal zip code of assignee]

_____ the within Bond of the City, County of Los Angeles, California, and does hereby irrevocably constitute and appoint _____

Attorney to transfer said Bond on the books of the Treasurer of the City, as Transfer Agent, and Registrar, with full power of substitution in the premises.

Dated: _____, ____

NOTICE: The signature to this assignment must correspond with the name as written upon the face of the within Bond in every particular without alteration or enlargement, or any change whatsoever.

AUTHENTICATION AND REGISTRATION

This is one of the bonds described in the within mentioned Resolution of
Issuance, which was registered on _____, 2005 to:

Name of
Registered Owner

Address of
Registered Owner

By: _____
Treasurer of the City of Hermosa Beach

| NORTH CROSS | HILL | ACH |

Northcross, Hill & Ach, Inc
Specializing in Public Finance
1333 N. McDowell Boulevard
Suite A
Petaluma, CA 94954

Tel 415.506.3400
Fax 415.506.3401
Email: info@nhainc.net
www.nhainc.net

February 16, 2005

Steve Burrell
City of Hermosa Beach
1315 Valley Drive
Hermosa Beach, CA 92054-3885

RE: Limited Obligation Improvement Bond
Assessment District No. 2004-2
(Bay View Drive)

The City of Hermosa Beach (the "City") formed the Bay View Drive assessment district for the purpose of undergrounding existing utilities within the neighborhood (the "District"). The District included 88 parcels of which 87 were assessed. 18 parcels made complete prepayments and 1 parcel made a partial prepayment. The 69 remaining assessed parcels will carry a total assessment bond of \$951,667.47 which will amortize through September 2, 2025 at a rate of 4.25%.

Our firm assisted in the structuring and marketing of the assessment district to various funding sources. We met and discussed this project with three firms who submitted proposals in January. Municipal Finance Corporation provided the lowest cost financing alternative to the City with a bid of 4.25%. This financing will be funded through City National Bank with semi-annual payments made on March 2nd and September 2nd of each year beginning September 2, 2005.

The summary of financing proposals is shown below:

<u>Funding Source</u>	<u>All-In-Cost (TIC)</u>	<u>Interest Rate</u>
Municipal Finance Corp.	4.6280%	4.25%
Piper Jaffray & Co.	5.1829%	4.80%
Stone & Youngberg LLC	5.3144%	5.00%

Under current market conditions, the interest rate on unrated assessment bonds ranges from 5.00% to 6%, depending on the underlying value of land and improvements. Larger, more diversified assessment districts are receiving financing rates in the low 5% range. Smaller or less diversified districts are financing at 6%+ rates.

Given the relatively small financing amount and select number of properties within the district boundaries, the rate provided by Municipal Finance Corporation represents a lowest overall cost of funds than any other financing source, including the issuance of public bonds. The private placement structure provides approximately \$5,900 per year in savings with the total interest savings over the 20 years of \$117,000.

Very truly yours;



G. Craig Hill
Principal

BOND PURCHASE AGREEMENT

**NOT TO EXCEED
\$951,667.47
CITY OF HERMOSA BEACH
Limited Obligation Improvement Bond
Assessment District No. 2004-2
(Bayview Drive)**

February 23, 2005

City of Hermosa Beach
1315 Valley Drive
Hermosa Beach, CA 92054-3885

The undersigned, _____, as purchaser (the "Purchaser"), offers to enter into this Bond Purchase Agreement with the City of Hermosa Beach (the "City") which, upon acceptance, will be binding upon the City and upon the Purchaser. This offer is made subject to the City's acceptance hereof on the date hereof, and if not so accepted will be subject to withdrawal by the Purchaser upon notice delivered to the City at any time prior to the acceptance hereof by the City.

1. Purchase, Sale and Delivery of the Bond.

(a) Subject to the terms and conditions and in reliance upon the representations, warranties and agreements herein set forth, the Purchaser hereby agrees to purchase from the City, and the City hereby agrees to sell to the Purchaser, all (but not less than all) of the City of Hermosa Beach Limited Obligation Improvement Bond Assessment District No. 2004-2 (Bayview Drive) (the "Bond"), dated their date of delivery, in the aggregate principal amount not to exceed \$951,667.47, bearing interest (payable commencing September 2, 2005, and semiannually thereafter on March 2 and September 2 in each year) at the rate of 4.25%, and maturing on the date as set forth in Exhibit A attached hereto and incorporated herein by this reference. The purchase price for the Bond shall be \$951,667.47, which is the principal amount of the Bond.

The Bond shall be substantially as described in, shall be issued and secured under the provisions of, and shall be payable and subject to redemption as provided in a Resolution of Issuance dated as of February 22, 2005 (the "Resolution ") by the City.

(b) At 8:00 o'clock A.M., Pacific Daylight Time, on March 2, 2005, or at such other time or date as shall be agreed upon by the Purchaser and the City (such time and date being herein referred to as the "Closing Date"), the City will deliver to the Purchaser, at a location or locations to be designated by the

Purchaser, the Bond in definitive form, duly executed as provided in the Resolution, and the other documents herein mentioned; and the Purchaser will accept such delivery and pay the purchase price of the Bond as set forth in paragraph (a) of this section in immediately available federal funds (such delivery and payment being herein referred to as the "Closing"). The Bond shall be made available to the Purchaser, or their designees, not later than three business days before the Closing Date for purposes of inspection. The Bond shall be in fully registered form, with such persons as designated by the Purchaser as registered owner.

2. Representations, Warranties and Covenants of the City. The City hereby represents and warrants to and agrees with the Purchaser as of the date of this agreement that:

(a) the City is duly organized and validly existing as a general law city and municipal corporation organized and existing under and by virtue of the laws of the State of California (the "State");

(b) the City has full legal right, power and authority to enter into this Bond Purchase Agreement, to issue and deliver the Bond to the Purchaser, to perform its obligations under each such document or instrument, and to carry out and effectuate the transactions contemplated by this Bond Purchase Agreement and the Resolution;

(c) this Bond Purchase Agreement, and the Bond have been, or on or before the Closing Date will be duly executed and delivered by the City, and on the Closing Date, the Bond, when authenticated and delivered to the Purchaser in accordance with the Resolution and this Bond Purchase Agreement, will constitute a legally valid and binding obligation, enforceable in accordance with its respective terms, except as such enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium, or similar laws or equitable principles relating or limiting creditor's rights generally;

(d) to the best knowledge of the City, the execution of the Resolution, the issuance of the Bond, the execution, delivery and performance of this Bond Purchase Agreement and the Bond, and compliance with the provisions of each of such documents or instruments do not constitute on the part of the City a violation of any existing law, charter, ordinance, regulation, decree, order or resolution of the City.

(e) to the best knowledge of the City, without having conducted an independent investigation, as of the time of acceptance hereof, no action, suit, proceeding, hearing or investigation, other than that which has previously been disclosed to the Purchaser is pending or threatened against the City: (i) in any way affecting the existence of the City or in any way challenging the respective powers of the several offices or the titles of the officials of the City to such office; or (ii) seeking to restrain or enjoin the sale, issuance or delivery of any of the Bond, the application of the proceeds of the sale of the Bond, or the collection of

the assessments pledged or to be pledged or available to pay the principal of, premium, if any, or the interest on the Bond, or the pledge thereof, or in any way contesting or affecting the validity or enforceability of the Bond, this Bond Purchase Agreement or the Resolution, or contesting the powers of the City or its authority with respect to the Bond, the District, the Resolution or this Bond Purchase Agreement; or (iii) in which a final adverse decision could (A) materially adversely affect the consummation of the transactions contemplated by this Bond Purchase Agreement or the Resolution, (B) declare this Bond Purchase Agreement or the Resolution to be invalid or unenforceable in whole or in material part, or (C) adversely affect the exemption of the interest paid on the Bond from taxation by the Government of the United States or by the State for income tax purposes;

(f) the City has not been notified of any listing or proposed listing by the Internal Revenue Service to the effect that the City is a bond issuer whose tax or non-arbitrage certificates may not be relied upon;

(g) any certificate signed by an officer or official of the City and delivered to the Purchaser shall be deemed a representation and warranty by the City as to the statements made therein, but not of the person signing the same;

(h) the City will apply the proceeds from the sale of the Bond for the purpose specified in the Resolution;

3. Conditions to the Obligations of the City. The obligations of the City hereunder, including the obligation to sell and deliver the Bond to the Purchaser, are subject to the conditions stated herein.

4. Conditions to the Obligations of the Purchaser. The obligations of the Purchaser to accept delivery of and pay for the Bond on the Closing Date shall be subject, at the option of the Purchaser, to the accuracy in all material respects of the representations and warranties on the part of the City contained herein, as of the date hereof and as of the Closing Date, to the accuracy in all material respects of the statements of the officers and other officials of the City and other persons and entities made in any certificates or other documents furnished pursuant to the provisions hereof, to the performance by the City of its obligations to be performed hereunder at or prior to the Closing Date and to the following additional conditions (any of which may be waived by the Purchaser):

(a) At the Closing Date, the Resolution and this Bond Purchase Agreement shall be in full force and effect, and shall not have been amended, modified or supplemented, except as may have been agreed to in writing by the Purchaser, and there shall have been taken in connection therewith, with the issuance of the Bond and with the transactions contemplated thereby and by this Bond Purchase Agreement, all such actions as, in the opinion of Stradling Yocca Carlson & Rauth, Bond Counsel for the City, shall be necessary and appropriate;

(b) Between the date hereof and the Closing Date, the market price or marketability of the Bond at the initial offering price shall not have been materially adversely affected, in the reasonable judgment of the Purchaser (evidenced by a written notice to the City terminating the obligation of the Purchaser to accept delivery of and pay for the Bond), by reason of any of the following:

(1) Legislation enacted (or resolution passed) by the Congress of the United States of America or a decision rendered by a court established under Article III of the Constitution of the United States of America or by the Tax Court of the United States of America, or an order, ruling, regulation (final, temporary or proposed), press release or other form of notice issued or made by or on behalf of the Treasury Department or the Internal Revenue Service of the United States of America, with the purpose or effect, directly or indirectly, of imposing federal income taxation upon the interest as would be received by the holders of the Bond;

(2) Legislation enacted (or resolution passed) by the Congress of the United States of America, or an order, decree or injunction issued by any court of competent jurisdiction, or an order, ruling, regulation (final, temporary or proposed), press release or other form of notice issued or made by or on behalf of the Securities and Exchange Commission, or any other governmental agency having jurisdiction of the subject matter, to the effect that obligations of the general character of the Bond, including any or all underlying arrangements, are not exempt from registration under or other requirements of the Securities Act of 1933, as amended, or that the Resolution is not exempt from qualification under or other requirements of the Trust Indenture Act of 1939, as amended, or that the issuance, offering or sale of obligations of the general character of the Bond or otherwise, is or would be in violation of the federal securities laws as amended and then in effect;

(3) Any amendment to the federal or California Constitution or action by any federal or California court, legislative body, regulatory body or other authority materially adversely affecting the tax status of the City, its property, income or securities (or interest therein), the validity or enforceability of the assessment or the ability of the City to issue the Bond as contemplated by the Resolution;

(4) The entry of an order by a court of competent jurisdiction which enjoins or restrains the City from issuing permits, licenses or entitlements within the District or which order, in the reasonable opinion of the Purchaser, otherwise materially and adversely affects the proposed development within the District.

(5) The ordinance of the City authorizing the Bond shall not be finally approved.

(c) On or prior to the Closing Date, the Purchaser shall have received counterpart originals or certified copies of the following documents, in each case satisfactory in form and substance to the Purchaser:

(1) One counterpart original or copy certified by a duly authorized officer of the City, of the Resolution, and the approval of this Bond Purchase Agreement;

(2) The approving opinion, dated the Closing Date and addressed to the City, of Stradling Yocca Carlson & Rauth, Bond Counsel, and an opinion of such counsel, dated the Closing Date and addressed to the Purchaser, to the effect that such opinion addressed to the City may be relied upon by the Purchaser to the same extent as if such opinion was addressed to it;

(3) A supplemental opinion of Bond Counsel, dated the Closing Date and addressed to the Purchaser, in form and substance satisfactory to the Purchaser and their counsel, to the effect that information provided in the Resolution, the Bond and Bond Counsel's opinion concerning certain federal and state tax matters relating to the Bond, are accurate in all material respects;

(4) A certificate of an authorized officer of the City, dated the Closing Date, addressed to Bond Counsel and the Purchaser, in form and substance acceptable to the Purchaser to the following effect:

(i) This Bond Purchase Agreement has been duly authorized, executed and delivered by the City and constitutes the valid, legal and binding agreement of the City enforceable in accordance with its terms.

(ii) No consent, waiver or any other action of any person, board or body, public or private is required as of the Closing Date, for the City to enter into this Bond Purchase Agreement or to perform its obligations under it.

(iii) Without having conducted an independent investigation, the City has not been served with any action, suit, proceeding, inquiry or investigation at law or in equity before or by any court, governmental agency, public board or body or, to the best of my knowledge is such event threatened against the City, challenging the creation, organization or existence of the City, or the validity of the Bond, or this Bond Purchase Agreement, seeking to restrain or enjoin any of the transactions referred to therein or contemplated hereby.

(iv) That nothing has come to the attention of the authorized officer of the City which would lead him to believe that

the Official Statement contains any untrue statement of a material fact or omits to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(5) Opinion of City Attorney. An opinion of the City Attorney addressed to the City and the Purchaser, dated the date of Closing, in substantially the form attached hereto as Exhibit B.

(7) A Tax Certificate in form and substance satisfactory to Bond Counsel.

(8) A copy of the Report of Proposed Debt Issuance and the Report of Final Sale required to be delivered to the California Debt and Investment Advisory Commission pursuant to section 8855, subsection (g) of the Government Code.

(9) A copy of a completed Internal Revenue Service form 8038-G, together with a certificate of mailing of the form to Internal Revenue Service Center, Philadelphia, PA 19255.

(10) Such additional certificates, instruments and other documents as the Purchaser or its counsel may reasonably deem necessary to evidence the truth and accuracy as of the time of the Closing of the representations of the City and the due performance or satisfaction by the City at or prior to such time of all agreements then to be performed and all conditions then to be satisfied by the City.

If the City shall be unable to satisfy the conditions contained in this Bond Purchase Agreement, or if the obligations of the Purchaser shall be terminated for any reason permitted by this Bond Purchase Agreement, this Bond Purchase Agreement shall terminate and neither the Purchaser nor the City shall be under further obligation hereunder, except as further set forth in Section 10 hereof.

5. Conditions of the City's Obligations. The City's obligations hereunder are subject to the Purchaser's performance of the obligations hereunder, and are also subject to, as of the Closing Date, the fact that the market price or marketability of the Bond shall not have been materially adversely affected, in the reasonable judgment of the City.

6. Expenses.

(a) The City shall be under no obligation to pay, other than out of Bond proceeds, any expenses incident to the City's obligations hereunder, including, but not limited to (i) the fees and disbursements of any accountants and other experts, consultants or advisers retained; (ii) the cost of preparation, printing and mailing or delivery of the definitive Bond; (iii) the fees and disbursements of

Bond Counsel; and (iv) the costs of publication or mailing of notices as required by the Resolution.

(b) The Purchaser shall pay (i) all advertising expenses in connection with the sale of the Bond, (ii) California Debt and Investment Advisory Commission fees, and (iii) all other expenses incurred by them or any of them in connection with the sale and distribution of the Bond.

7. Undertakings of the City. The City agrees, at its expense, to make available to the Purchaser sufficient copies of its audited financial statements, if any, resolutions and ordinances of the City with respect to the Bond, the Resolution, this Bond Purchase Agreement, and any amendments or supplements thereto and other documents related to the Bond and pertaining to the City, to the extent such documents are publicly available, as may reasonably be required from time to time for the prompt and efficient performance by the Purchaser of their obligations hereunder (except for all or any portions of any such documents which, by contract, are not subject to disclosure).

8. Parties in Interest. This Bond Purchase Agreement is made solely for the benefit of the City and the Purchaser (including successors or assigns of the Purchaser) and no other person shall acquire or have any right hereunder or by virtue hereof.

9. Survival of Representations and Warranties. The representations and warranties of the City set forth in or made pursuant to this Bond Purchase Agreement shall not be deemed to have been discharged, satisfied or otherwise rendered void by reason of the Closing and regardless of any investigations made by or on behalf of the Purchaser (or statements as to the results of such investigations) concerning such representations and statements of the City and regardless of delivery of and payment for the Bond.

10. Effective. This Bond Purchase Agreement shall become effective and binding upon the respective parties hereto upon the execution of the acceptance hereof by the City and shall be valid and enforceable as of the time of such acceptance.

11. Applicable Law; Nonassignability. This Bond Purchase Agreement shall be governed by the laws of the State of California. This Bond Purchase Agreement shall not be assigned by the City or the Purchaser.

12. Execution of Counterparts. This Bond Purchase Agreement may be executed in several counterparts, each of which shall be regarded as an original and all of which shall constitute one and the same.

13. No Prior Agreements. This Bond Purchase Agreement supersedes and replaces all prior negotiations, agreements and understandings between the parties hereto in relation to the sale of Bond for the City and represents the entire agreement of the parties as to the subject matter herein.

14. Partial Unenforceability. Any provision of this Bond Purchase Agreement which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions of this Bond Purchase Agreement or affecting the validity or enforceability of such provision in any other jurisdiction.

15. Capitalized Terms. Terms with initial capital letters not otherwise defined herein shall have the meanings assigned to them in the Resolution.

Very truly yours,

[PURCHASER]

By _____

Terms and conditions of this Bond Purchase Agreement are approved and accepted as of the date above written.

CITY OF HERMOSA BEACH

By: _____
City Manager

EXHIBIT A

DESCRIPTION OF THE BOND TO BE PURCHASED

Principal Amount: \$951,667.47
Interest Rate: 4.25%
Dated/Delivery Date: March 2, 2005
First Interest Payment Date: September 2, 2005
Final Maturity Date: September 2, 2025
Principal Sinking Payments: September 2, 2006 – September 2, 2025

Sinking Payment September 2	Principal Amount
2006	\$31,138.40
2007	32,461.77
2008	33,841.41
2009	35,279.67
2010	36,779.06
2011	38,342.17
2012	39,971.71
2013	41,670.51
2014	43,441.50
2015	45,287.77
2016	47,212.50
2017	49,219.03
2018	51,310.84
2019	53,491.55
2020	55,764.94
2021	58,134.95
2022	60,605.68
2023	63,181.42
2024	65,866.63
2025	68,665.96

EXHIBIT B

FORM OF OPINION OF CITY ATTORNEY

_____, 2005

City of Hermosa Beach
1315 Valley Drive
Hermosa Beach, CA 92054-3885

[PURCHASER]

OPINION: \$951,667.47 City of Hermosa Beach, Limited Obligation Improvement Bond Assessment District No. 2004-2, (Bayview Drive) (the "Bond")

Ladies and Gentlemen:

Our firm acts as the City Attorney for the City of Yuba City (the "City") and have acted as such in connection with the issuance by the City for and on behalf of the \$951,667.47 City Of Hermosa Beach Limited Obligation Improvement Bond Assessment District No. 2004-2 (Bayview Drive) (the "Bond"). The Bond is being issued pursuant to a Resolution, dated as of February 22, 2005 (the "Resolution"), by the City. Capitalized terms used herein and not otherwise defined shall have the meanings assigned to them in the Resolution.

In this connection, we have reviewed and examined the Resolution, the Bond Purchase Agreement, dated February 23, 2005, by and between the City and [PURCHASER], as Purchaser of the Bond and certain proceedings and documents with respect to the Bond, Resolution No. _____ providing for issuance of the Bond, and such records, certificates and other documents as we have considered necessary or appropriate for the purposes of this opinion.

In rendering this Opinion, we have made the assumption that all documents submitted to or reviewed by us are accurate and complete and, if not originals, are true and correct copies of originals. We have further assumed that the signatures on each of these documents by parties other than representatives of the City are genuine, and each individual executing any of these documents on behalf of the parties other than the City has the legal capacity to do so.

Based upon our review and such other considerations of law and fact as we believe to be relevant, we are of the opinion that:

- (i) The City is a municipal corporation, duly organized and lawfully existing under the laws of the State.
- (ii) The Resolution of the City Council of the City approving and authorizing the execution and delivery of the Bond has been duly adopted and has not been modified, amended or rescinded.

(iii) The authorization, execution and delivery of the Bond by the City and compliance by the City with the provisions thereof, will, to the best of our current actual knowledge, not conflict with, or constitute a breach of default under, any law, administrative regulation, court decree, resolution, ordinance or other agreement to which the City is subject or by which it is bound.

(iv) To the best of our current actual knowledge, the City has not been served with any action, suit, proceeding, inquiry or investigation at law or in equity before or by any court, governmental agency, public board or body or threatened against the City, challenging the creation, organization or existence of the City, or the validity of the Bond, the Bond or the Bond Purchase Agreement, seeking to restrain or enjoin any of the transactions referred to therein or contemplated thereby.

The foregoing opinions are subject to the following additional exceptions or limitations:

1. The opinions set forth herein are based upon the laws of the State of California as of the date hereof, and we assume no obligation to modify or supplement this Opinion with respect to changes in such laws after the date hereof.

2. As counsel to the City in this matter, we have not rendered financial advice to the City and do not represent, by this Opinion or otherwise, that we have reviewed or made any assessment about, nor do we offer any opinion about, the financial condition of the City, past, present or future, including any financial information contained in the documents; nor have we reviewed the financial feasibility of this transaction or those matters which the proceeds of the Bond will fund or any of its components and accordingly, we offer no opinion whatsoever regarding such financial feasibility.

3. Whenever a statement herein is qualified by "to the best of our current actual knowledge," it is intended to indicate that, during the course of our representation of the City, no information would give us current actual knowledge of the inaccuracy of such statement has come to the attention of those attorneys in this firm who have rendered legal services to the City. However, we have not undertaken any independent investigation to determine the accuracy of such statement, and any limited inquiry undertaken by us during the preparation of this Opinion Letter should not be regarded as such an investigation; no inference as to our knowledge of any matters bearing on the accuracy of any such statement should be drawn from the fact of our representation of the City, either past or present.

We express no opinion as to any matter other than as expressly set forth above, and, in conjunction therewith, specifically express no opinion concerning the application of or compliance with any federal security law, including but not limited to the Securities Act of 1933, as amended, and the Trust Indenture Act of 1939, as amended, any state securities or "Blue Sky" law or any federal, state or local tax law, as respecting the Notes.

The City, [PURCHASER], as Purchaser, and Stradling Yocca Carlson & Rauth, as Bond Counsel, may rely upon our Opinion as set forth herein; otherwise, this Opinion may not, without express written consent, be relied upon by any other person. We undertake no duty to notify any person or entity of changes in the facts or circumstances upon which this Opinion is based or any new facts or information which may become known to us after the date of this Opinion.

Very truly yours,